

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
April 25, 2009 Through April 15, 2010**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period
April 25, 2009 Through April 15, 2010

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Graves County Sheriff for the period April 25, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$9,470,868 for the districts for 2009 taxes, retaining commissions of \$389,432 to operate the Sheriff's office. The Sheriff distributed taxes of \$9,064,280 to the districts for 2009 taxes. Taxes of \$4,141 are due to the districts from the Sheriff and refunds of \$476 are due to the Sheriff from the taxing districts.

Report Comments:

- The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties
- The Graves County Sheriff Should Prepare A Complete And Accurate Franchise Tax Settlement

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2009 Taxes for the period April 25, 2009 through April 15, 2010. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid for the period April 25, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties
- The Graves County Sheriff Should Prepare A Complete And Accurate Franchise Tax Settlement

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 3, 2011

GRAVES COUNTY
JOHN DAVIS, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period April 25, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,111,525	\$ 1,397,791	\$ 3,460,575	\$ 1,493,383
Tangible Personal Property	122,451	595,877	354,309	300,939
Fire Protection	1,033			
Franchise Taxes	139,802	230,041	446,077	
Clay Bills	369	429	1,438	497
Additional Bills	706	1,390	1,486	1,071
Limestone, Sand and Mineral Reserves	397	471	1,540	532
Bank Franchises	97,388			
Penalties	7,294	13,483	23,736	9,847
Adjusted to Sheriff's Receipt	2,901	1,030	7,750	11,482
Gross Chargeable to Sheriff	<u>1,483,866</u>	<u>2,240,512</u>	<u>4,296,911</u>	<u>1,817,751</u>
<u>Credits</u>				
Exonerations	5,313	9,449	16,722	7,596
Discounts	19,871	31,266	60,997	29,129
Delinquents:				
Real Estate	21,412	43,944	56,562	28,709
Tangible Personal Property	6,288	8,509	9,787	10,223
Franchise Taxes	<u>446</u>	<u>603</u>	<u>1,346</u>	
Total Credits	<u>53,330</u>	<u>93,771</u>	<u>145,414</u>	<u>75,657</u>
Taxes Collected	1,430,536	2,146,741	4,151,497	1,742,094
Less: Commissions *	<u>60,798</u>	<u>88,535</u>	<u>166,060</u>	<u>74,039</u>
Taxes Due	1,369,738	2,058,206	3,985,437	1,668,055
Taxes Paid	1,367,879	2,054,551	3,978,116	1,663,734
Refunds (Current and Prior Year)	<u>1,901</u>	<u>2,710</u>	<u>4,783</u>	<u>4,097</u>
Due Districts or (Refunds Due Sheriff) as of		**		
Completion of Audit	<u>\$ (42)</u>	<u>\$ 945</u>	<u>\$ 2,538</u>	<u>\$ 224</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, SHERIFF
 SHERIFF'S SETTLEMENT - 2009 TAXES
 For The Period April 25, 2009 Through April 15, 2010
 (Continued)

* Commissions:

4.25% on	\$ 4,862,425
4% on	\$ 4,556,464
1% on	\$ 51,979

** Special Taxing Districts:

Library District	\$ (33)
Health District	(12)
Kevil District	(8)
Watershed #1 District	(381)
Symsonia Fire District	383
Melber Volunteer Fire	42
Rescue Squad	115
Viola Volunteer Fire	839

Due Districts or (Refunds Due Sheriff)	<u>\$ 945</u>
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GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2009 through April 15, 2010.

B. Franchise Taxes

The franchise tax assessments were levied as of January 1, 2009. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was July 1, 2009 through June 30, 2010.

Note 4. Interest Income

The Graves County Sheriff earned \$2,612 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of January 3, 2011, the Sheriff owed \$15 in interest to the school district and \$107 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$41,084 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff should deposit unrefundable duplicate payments and unexplained receipts in an interest-bearing account. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff should send a written report to the Treasury Department and submit abandoned property to the Kentucky State Treasurer in accordance with KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2009 Taxes for the period April 25, 2009 through April 15, 2010, and have issued our report thereon dated January 3, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations to be a material weakness.

- The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement – 2009 Taxes for the period April 25, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Graves County Sheriff Should Prepare A Complete And Accurate Franchise Tax Settlement

The Graves County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 3, 2011

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 25, 2009 Through April 15, 2010

STATE LAWS AND REGULATIONS:

The Graves County Sheriff Should Prepare A Complete And Accurate Franchise Tax Settlement

The Graves County Sheriff did not prepare a complete and/or accurate franchise tax settlement. KRS 134.310 requires the Sheriff to file a final settlement of all monies collected by his office. This would include any franchise taxes collected. The settlement should include total amount to be collected, discounts given, penalties paid, commissions earned and taxes paid for all taxing district. We recommend that the Sheriff annually prepare a complete and accurate franchise tax settlement by September 1 and have it approved by the fiscal court.

Sheriff's Response: Will correct problem.

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties

During the review of the internal control structure, the following deficiencies were noted in the control environment over tax receipts and disbursements:

- The Sheriff's bookkeeper collects money, prepares deposits, and reconciles to daily collection reports.
- The Sheriff's bookkeeper prepares and signs all checks with no second signature required.
- The Sheriff's bookkeeper prepares monthly bank reconciliations.

No compensating controls were noted to offset any of these control deficiencies. Therefore, the control deficiencies as described above are significant deficiencies and material weaknesses. The Sheriff should segregate duties over tax receipts and disbursements or should implement the following compensating controls to limit the severity of these internal control weaknesses:

- The Sheriff or his designee should periodically prepare the daily bank deposit and compare it to the daily collection report prepared by the bookkeeper. Any differences should be reconciled. This review should be documented by signing the bank deposit, and daily collection reports.
- The Sheriff or his designee should review the monthly tax reports and compare monthly reports to checks written. The Sheriff or his designee should also review supporting documentation for any other checks written from the tax account such as overpayments and refunds. A second signature should be required on all checks.
- The Sheriff or his designee should review the monthly bank reconciliations. Any differences should be reconciled. This should be documented by signing the bank reconciliation and checkbook.

Sheriff's Response: Continuing problem, cannot afford employees to solve this problem.

Auditor's Reply: Additional employees would not be needed to resolve the lack of segregation of duties. Recommendations made by the auditor would only require that duties be segregated among existing employees including the Sheriff.

